

HOUSING MARKET OUTLOOK

Québec CMA



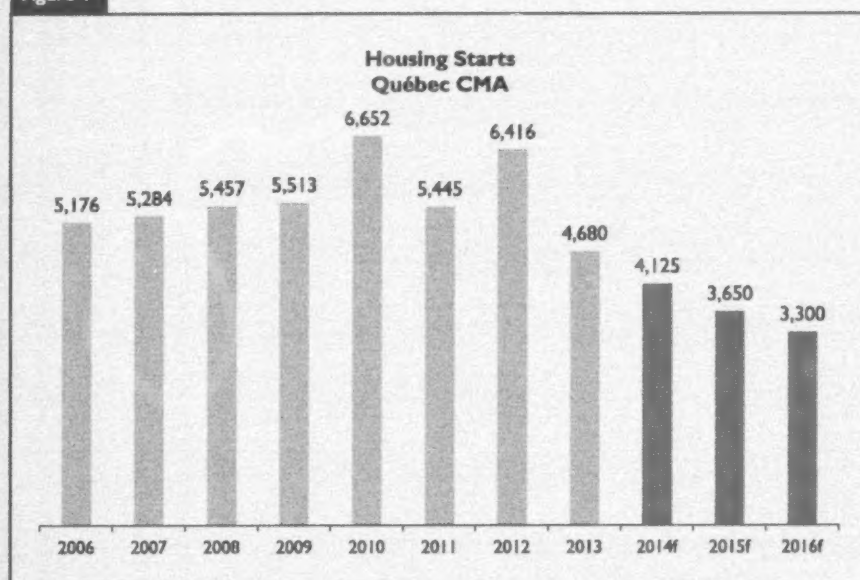
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- The new home market is bound to slow down over the coming years.
- Following a period of marked decline, condominium construction will stabilize in 2015 and 2016.
- The resale market will post a slight rebound in activity this year and through to 2016.
- The percentage of vacant rental dwellings will rise this year and next year and then stabilize.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 22, 2014.

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New home market: slowdown to continue

As a result of slow population growth and more choice on the resale market, housing starts are bound to slow down from now until 2016.

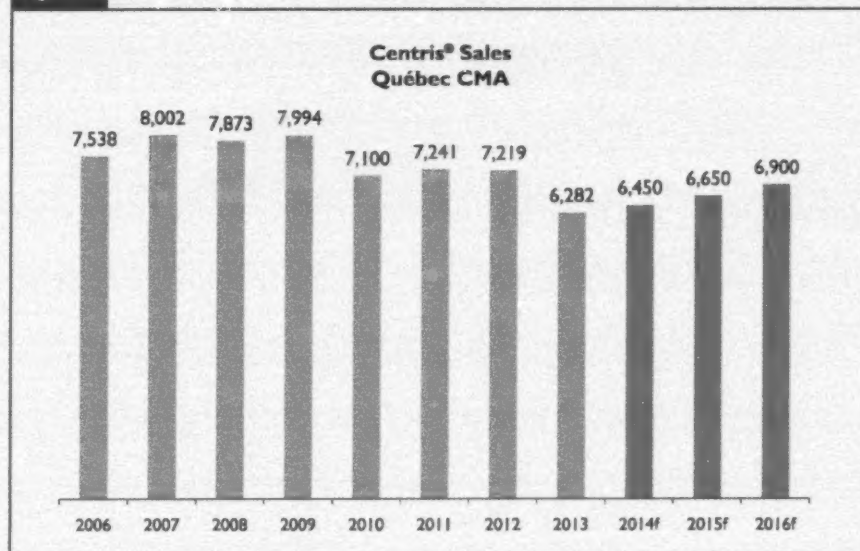
Single-detached houses

Single-detached home starts will decrease over the coming years. From 960 units in 2013, such starts will fall to 925 units this year, to 850 next year and finally to 800 in 2016. Single-detached houses will then account for only 33 per cent of the homeowner dwellings started,¹ compared to 60 per cent in 2007. The decline will be due to several factors, including their relatively high prices, the slower population growth² and the greater choice among existing housing types. According to the demographic outlook, the average annual growth in the number of new households will slow down over the coming years. This will have a non-negligible impact on demand for new homes. In addition, the inventory of single-detached houses for sale on the existing home market is on the rise (+16 per cent³). Lastly, the intensification objectives identified in the Municipal Land Use and Development Plan adopted by the Québec Metropolitan Community,⁴ which will limit the production of single-detached houses, should also be taken into account.

Multi-unit housing

Multi-unit housing construction will also be on a downward trend until 2016. Overall, multi-unit housing

Figure 2



Source: QFREB by the Centris® system
f: CMHC forecasts

starts will fall by 14 per cent this year, by 13 per cent in 2015 and by 11 per cent in 2016. This year, the decline will be mainly due to a drop of nearly 40 per cent in condominium starts. The total number of new condominiums will reach 900 units this year and then stabilize at that level until 2016. The major decreases will be a thing of the past, but activity will be low in comparison with recent years. In fact, even though condominium production has been declining significantly since 2013, the inventory on the resale market will remain considerable.

Semi-detached and row home construction will increase by 10 per cent this year and then stabilize in 2015 and 2016. The greater affordability of such homes compared to single-detached houses is an asset. Also, there is a less abundant supply of

semi-detached and row homes than other types of properties on the resale market. Still, the levels of activity expected on the new home market will be below the average of the last five years. Overall, some 700 semi-detached and row houses should be started annually until 2016.

Rental housing starts, for their part, will reach the same level this year as in 2013, with 1,600 units. The production of rental units will then slow down in 2015 and 2016, on account of the increases in the vacancy rate⁵ anticipated for this year and next year. Rental housing starts will reach 1,200 units in 2015 and then fall to 900 units in 2016. As well, most of the rental dwellings started will be conventional units, since few retirement homes are expected to get under way, given

¹ Homeowner dwellings include single-detached houses, semi-detached and row homes, duplexes and condominiums.

² See the section on economic trends.

³ Québec Federation of Real Estate Boards (QFREB) by the Centris® system, active listings, January to September 2014/2013.

⁴ Québec Metropolitan Community, Municipal Land Use and Development Plan, February 2013.

⁵ Conventional rental market.

the weak demographic growth of the main client group for seniors' housing⁶ until 2016.⁷

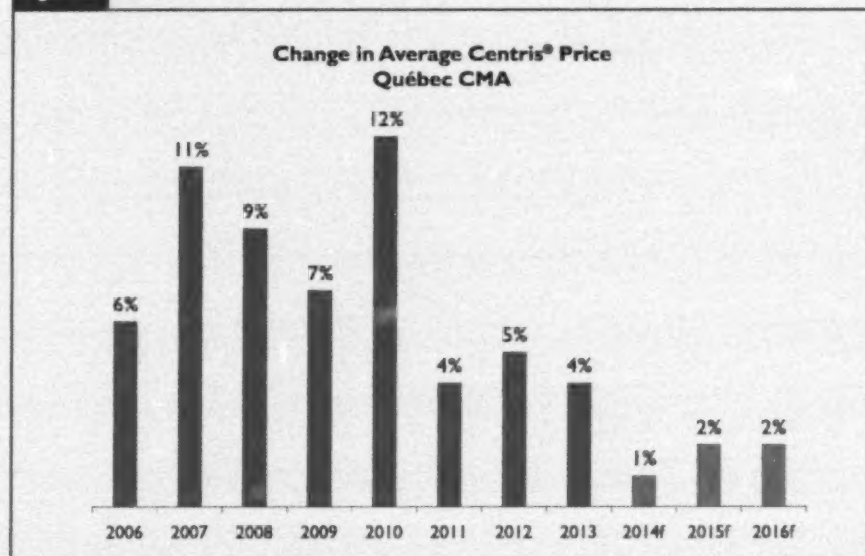
Overall, total multi-unit housing starts will reach 4,125 units this year (-12 per cent) and 3,650 units in 2015 (-12 per cent). And, the year 2016 will see the lowest level of starts of this type since 2002, with 3,300 units, for a decrease of 10 per cent year over year.

Existing home market: slight rebound in activity expected

Until 2016, the employment gains as well as the continued affordable financing conditions will support demand on the existing home market. Centris[®] transactions are therefore expected to rise by 3 per cent annually, this year and next year, reaching 6,450 units in 2014 and 6,650 in 2015. In 2016, the increase will be 4 per cent, bringing total sales to 6,900 units. Even with this return to higher levels of activity, sales will remain below the annual average of 7,170 units for the last five years.

The decrease in activity on the resale market, which began in 2012, and the high level of condominium production in recent years have contributed to the rise in the number of properties for sale in the Centris[®] system. This year, active listings will grow by 13 per cent, to 6,350 units. Next year, the increase in Centris[®] sales and the decline in inventories of new condominiums will cause listings on the resale market to fall (-6 per cent). In 2016, listings will register a small drop, to 5,900 units.

Figure 3



Source: QFREB by the Centris[®] system
f: CMHC forecasts

Market conditions—as illustrated by the active listings-to-sales ratio⁸—will firm up in 2015 and 2016. This year, the advantage will be on the side of buyers, as this ratio will average at close to 12 to 1. Starting in 2015, the market will tighten. In 2016, the ratio will be 10.3 to 1, reflecting near-balanced conditions. These results should be qualified, however, as the condominium segment will clearly favour buyers this year. From now until 2016, the ratio for properties of this type will decrease gradually, heading toward a balanced situation. For single-family houses and plexes, conditions will be balanced this year and should remain so until 2016.

Given the buyer's market conditions this year, the average price of homes in the Québec CMA will rise by just 1 per cent, to \$270,000. In 2015 and 2016, market conditions will firm up,

and the average price of residential properties will grow by 2 per cent annually, reaching \$280,000 by 2016.

Rental market: vacancy rate to rise

Rental market conditions are expected to soften this year, and the percentage of vacant units should reach 2.6 per cent, compared to 2.3 per cent last year. This easing of the market is mainly due to the arrival of a large number of rental units on the market. It should be noted, though, that demand will remain supported by the high level of migration in the CMA.

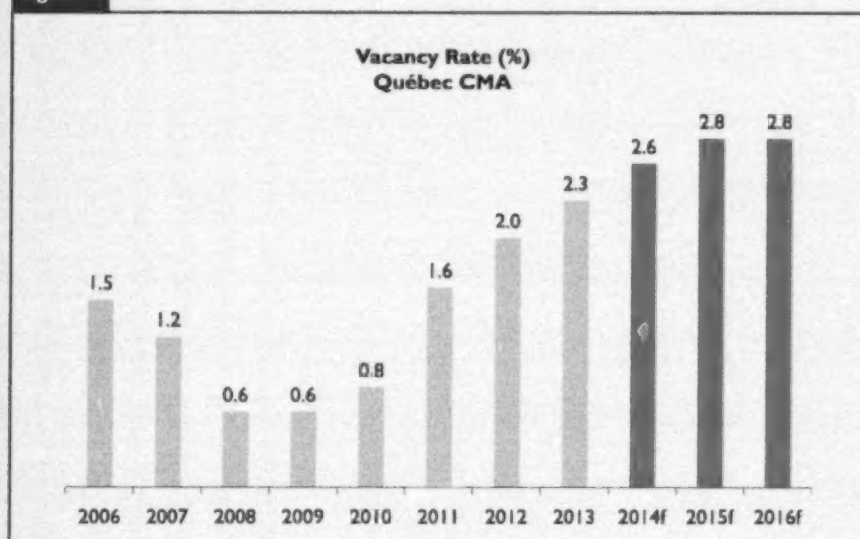
In 2015, the completion of several rental housing projects will again lead to an increase in the vacancy rate, which should rise to 2.8 per cent. In 2016, the addition of rental

⁶ People aged 75 or older.

⁷ Institut de la statistique du Québec (ISQ), *Perspectives démographiques du Québec et des régions, 2011-2061, Édition 2014*.

⁸ Market conditions are generally considered balanced when this ratio is between 8 and 10 to 1. A ratio below 8 to 1 signifies that the advantage goes to sellers, while a ratio above 10 to 1 indicates that buyers have the edge.

Figure 4



Source: CMHC
f: CMHC forecasts

dwellings will be more in line with demand, such that the proportion of vacant units will remain at 2.8 per cent.

The softer market conditions in the CMA will limit rent increases. The average rent for two-bedroom apartments will therefore rise from \$757 in 2013 to \$770 in 2014, then to \$785 in 2015 and finally to \$795 in 2016.

Economic trends: small employment gains anticipated

Capital investments are still significant in the CMA and will contribute to a robust job market. However, the slow growth of the provincial economy is also limiting regional growth. This year, after two years of remaining practically stable, employment will post a small gain of 1 per cent.

In 2015 and 2016, the employment outlook will be subject to opposing forces. Investments will continue to

support robust employment, and the economic recovery south of the border will boost activity in the manufacturing and transportation sectors. Conversely, the upcoming budget cuts will dampen potential job growth. In 2015 and 2016, the gains should be slightly greater than this year, with growth at 1.5 per cent annually. These employment gains will, however, remain below the annual average of 2.2 per cent for the period from 2007 to 2011.

From now until 2016, weak employment growth will result in a less significant housing demand than before.

Demographics: household formation to slow down

Even with the appeal of the area and the high level of migration that will contribute to increasing the population of the CMA, the number of new households will be on the decline. In fact, the average annual growth in the number of new

households will slow down over the coming years. The population projections for the period from 2011 to 2016 indicate an average annual formation rate of about 4,000 households, which is lower than the rate of around 6,000 households recorded between the last two censuses. In the medium term, it is therefore expected that housing demand will moderate.

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and will continue to support housing demand.
Employment	The small employment gains will result in a weaker demand than before.
Income	Since the beginning of the year, average weekly earnings increased at a lower rate than inflation in the Québec CMA, which will contribute to slowing the demand.
Population	The demographic outlook is pointing to slower growth until 2016. It is therefore expected that housing demand will moderate.
Resale Market	The supply of existing properties will grow, which will limit activity on the new home market.
Supply	The relatively high inventory of condominiums for sale will limit construction again this year, but activity is then expected to stabilize.

Forecast risks

This outlook is subject to some risks, including the following:

- Employment could grow less significantly or even decline, as a result of a greater-than-expected impact from the budget cuts. Such a situation would further limit housing demand over the next two years.
- Migration could be less strong than anticipated, which would weaken demand in the rental segment and cause this market to ease further.
- Employment could also post greater growth, should the U.S. economy recover more rapidly than expected, which would further fuel housing demand.

Forecast Summary Québec CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	1,349	1,258	961	925	-3.7	850	-8.1	800	-5.9
Multiples	4,096	5,158	3,719	3,200	-14.0	2,800	-12.5	2,500	-10.7
Starts - Total	5,445	6,416	4,680	4,125	-11.9	3,650	-11.5	3,300	-9.6
Average Price (\$):									
Single-Detached	313,905	326,583	354,041	335,000	-5.4	335,000	0.0	335,000	0.0
Median Price (\$):									
Single-Detached	283,579	292,174	300,000	285,000	-5.0	285,000	0.0	285,000	0.0
New Housing Price Index (% chg.)	1.4	2.9	1.1	0.0	-	0.0	-	0.0	-
Resale Market¹									
Centris® Sales	7,241	7,219	6,275	6,450	2.8	6,650	3.1	6,900	3.8
Centris® New Listings	12,423	12,689	12,696	13,200	4.0	13,500	2.3	13,500	0.0
Centris® Active Listings	4,082	4,694	5,618	6,350	13.0	6,000	-5.5	5,900	-1.7
Centris® Average Price (\$)	245,470	257,942	267,254	270,000	1.0	275,000	1.9	280,000	1.8
Rental Market²									
October Vacancy Rate (%)	1.6	2.0	2.3	2.6	0.3	2.8	0.2	2.8	0.0
Two-bedroom Average Rent (October) (\$)	718	741	757	770	1.7	785	1.9	795	1.3
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	419,700	422,000	421,900	426,100	1.0	432,500	1.5	439,000	1.5
Employment Growth (%)	2.3	0.5	0.0	1.0	-	1.5	-	1.5	-
Unemployment rate (%)	5.3	5.1	4.7	5.0	-	4.8	-	4.8	-
Net Migration	5,189	5,260	5,071	5,200	2.5	5,325	2.4	5,450	2.3

¹The Centris® system contains all the listings of Québec real estate brokers.

²Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics, CMHC Forecast (2014-2016)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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